

Development of Road system in Viet Nam through Policies of Investment Attraction and Internal Force Strengthening.

For the past years, transport infrastructure development has received great attention by the Government and achieved considerable results which proactively contributes to economic growth as well as poverty reduction of Viet Nam. In which, annual investment into road infrastructure occupied a great share, thus creating a strong impetus for regional and nationwide economic development. In the years to come, demand for road infrastructure development will still be huge, imposing a great deal of new challenges to the transport sector, inter alia the mobilization of fund for road infrastructure development.

I/ Overview on Viet Nam road infrastructure and investment situation during past years.

Viet Nam's transport system has adequately five transport modes namely roadway, railway, inland waterway, maritime and aviation, where road have length of 77,254 km(15,284 km as national road, 16,403 km as provincial roads, 36,905 km as district roads, 3,211 km as urban roads, 5,451 km as specialized roads).

For the past 10 years (2000 - 2009), Viet Nam government has concentrated its priority of investment to transport infrastructure development with total invested budget of 111,775 billion VND; of which 62,000 billion VND coming from state funding (32,000 billion VND from state budget, 42,775 billion VND from government bonds and 7,000 billion from preferential loans) and 13,700 billion VND from non- state sources. The investment to road accounts for 85,26% of total investment (95,300 billion VND). New construction rehabilitation of 15,300 km for road, 161,000m for bridge. Therefore, Viet Nam has substantially improved main national highways one step in advance, which has better satisfied social demands.

Together with support from central level, localities have proactively mobilized funding resources to develop their local transport network. Until now, provincial and rural road networks have been widened improved to one step in advance, creating better linkages with national system.

II/ Targets to develop road infrastructure and demand for investment fund

1. Objectives

- Expressway: investment to construct some key links in focal regional economic centers, main cities have been having and will have traffic congestions and jams in the near future, imposing hindrance to

developments with total target length of expressway by 2020 and years afterward to have 22 already-identified routes of 5873 km, divided by regions as follows:

- + North- South expressway has 2 routes with 3262 km: North-South expressway in the eastern Viet Nam is 1941 km long; North- south expressway in the western Viet Nam is 1321 km long.

- + The expressway in the northern Viet Nam has 7 routes connects to center of Ha Noi capital with length of 1099 km: Lang Son-Bac Giang-Bac Ninh, with length of 130 km, Ha Noi- Hai Phong with length of 105 km; Ha Noi- Viet Tri-Lao Cai with length of 264 km; Ha Long-Ha Noi- Mong Cai with length of 294 km; Ha Noi- Thai Nguyen- Cho Moi with length of 90 km; Lang Hoa Lac-Hoa Binh with length of 56 km; Ninh Binh-Hai Phong-Quang Ninh with length of 160 km.

- + The expressway in the Central and Central Highland of Viet Nam have 3 routes with 264 km: Hong Linh- Huong Son of Ha Tinh with 34 km: Cam Lo - Lao Bao with length of 70 km: Quy Nhon - Pleiku with length of 160 km.

- + The expressways in the Southern Viet Nam have 6 routes with 984 km: Bien Hoa - Vung Tau with 76 km; Dau Giay-Da Lat with length of 209 km; Ho Chi Minh - Thu Dau Mot- Chon Thanh with length of 69 km; Ho Chi Minh- Moc Bai with length of 55 km; Chau Doc- Can Tho- Soc Trang with length of 200km; Ha Tien- Rach Gia- Bac Lieu with length of 225 km; Can Tho – Ca Mau with length of 150 km.

- + System of expressway ringroads in Ha Noi and Ho Chi Minh: Ha Noi has ring road No.3 with length of 56 km; ring road No. 4 with 125 km; Ho Chi Minh: ring road No.3 with length of 83 km.

- National roads: rehabilitation and improvement of the existing network has been completed. Improving nationwide the network of national highways to homogenous technical standards with total length of 21867 km by 2020. Finished constructing the large span bridges along national highways by 2015, removing all 100 % of weak bridges along national highway. In general, National highways shall have been completed with rehabilitation and improvement up to road classes from III to I, especially for blade-fan roads in Focal Regional economic centers shall be widened to reach road classes I to II with 4 lanes.

- Local roads: 100 % of provincial roads be paved with asphalt and Cement Concrete by 2015; to complete improvements and construction of ring roads and centripetal roads, main urban axis; rehabilitation and improvement to target classes: minimum standard class IV for flat terrain, reaching road class from IV to V for mountainous terrain, Class III for roads passing urban areas; to 2010, 100% of communes, cluster communes will have road to centre, except extremely

difficult/ isolated or island communes; 95 % of them are hard surface roads where concrete surface account for 30%; eradicating 90% of donkey bridges in Mekong delta.

2, Demand of investment funds

Total estimated investment for development of road infrastructure up to 2020 as follows:

- Expressway: 766,220 billion VND, of which 394,730 billion VND for the period between now and 2010, and 371,490 billion VND for the period 2011-2020.
- National roads: 200,816 billion VND, average 16,735 billion VND/year.
- Ho Chi Minh road: total investment fund for period of 2000-2010 is 41,020 billion VND, period of 2011-2020 will be identified before 2010.
- Local roads: provincial roads 120,000 billion VND, average 8,500 billion VND/year; urban transport in 2 major cities of Ha Noi and Ho Chi Minh by 2020: 305,705 billion VND, average 17,765 billion VND/ year; rural transport for period 2006 - 2010: 42,781 billion VND; period 2011-2020: 62,343 billion VND, average 6,941 billion/year

III/ Investment Attraction Policies

To secure investment resources for development of road infrastructure in past years as well as years to come, Vietnamese Government takes as its policy to diversify many investment sources such as state budget, issuance of bonds, ODA loans, commercial loans and on lending to private investors, commercial guarantees, issuance of work bonds; and funds from private investors in BOT, BTO, BT and Public – Private Partnership (PPP)’s schemes.

1. Expressway

a) Projects with committed investment

- Ha Noi - Hai Phong with 1,368 million USD, fund structure: Korean ODA 200 million USD, German Bank of Reconstruction 100 million USD, Chinese Development Bank 500 million USD, 300 million USD loan from Czech’s KB Bank, trading operations (land fund, services...).
- Gie - Ninh Binh with total estimated cost of 470 million USD, fund structure: firm’s registered capital 62,5 million USD plus government’s guarantee for issued bonds (1st phase of issuance completed).
- Ha Noi- Thai Nguyen with total estimated cost of 324 million USD (where ODA 238 million USD and state budget 86 million USD).

- Ha Noi- Lao Cai with total estimated cost of 1,25 billion USD (ODA 200 million USD, OCR 896 million USD onlending to VEC, work bond of 153 million USD).
- Sai Gon- Long Thanh- Dau Day with total estimated cost of 850 million USD (where JBIC 516,7 million USD; ADB 410,2 million USD, onlending to VEC).
- Sai Gon- Trung Luong with total estimated cost of 624 million USD; constructed through advance of state budget and concession rights of toll collection for fund return.
- Bien Hoa- Vung Tau with total estimated cost of 434 million USD (Widening National Highway No. 51 in combination with building an expressway). Domestic BOT.
- Lang - Hoa Lac with total estimated cost of 479 million USD (Central budget 112 million USD and Ha Noi city's budget (contributed through concession of rights to trade and use land fund)

b) Projects calling for investments

In addition to above-mentioned committed projects, among remaining routes, some expressway sections in focal economic and urban transport centres are urgent projects to be implemented as soon as possible, especially for sections with on-going serious problems of traffic jams and accidents i.e. Ninh Binh - Thanh Hoa, Da Nang- Quang Ngai, Dau Day - Phan Thiet, Trung Luong- Can Tho, Ben Luc - Long Thanh... Through reports of project preparations, it has shown these are having high Economic Internal Rates of Return but low Financial Internal Rates of Returns. Therefore, they can not be implemented using BOT scheme and require government contribution (around 50%).

Ministry of Transport would like to propose international financial institutions (WB, ADB) and other international donors to pay attention to studying and coordinating with domestic and foreign investors to deliver PPP deals, where state budget shall be contributed to such PPP projects through loans from International donors and other governments, in combination with concessions of trading and servicing rights along the roads and use of land fund.

2. National Highway:

These are non-commercial roads, aiming at satisfying development and transport demand by localities, therefore so far and in the time to come, main source of financing for national highway development will still be state budget (including government bond) and ODA fund.

At the same time, attention should be paid to facilitating favourable conditions for attracting investment from different economic sectors under different forms to invest to low feasible and fund return sections of national highways.

c) Local roads

To meet with targets set out to fully complete improving the networks, upgrading capacity of the local road network, aiming at improving accessibility, reducing poverty and developing local economy, then more investment should be released from central and local budgets in addition to calling supports from other international donors and governments supply to provide ODA and operations of road-side land fund.

For rural roads, continue encouraging domestic economic entities, international organizations, and other governments to support. At the same time, private investment and management to this system shall be encouraged.

IV/ Measures

To speed up committed projects and remove difficulties/ obstacles to fund attraction to investment and development of roads, main measures are proposed as follows:

1. Institutions and policies:

- Fully complete policies to create a necessary legal framework to mobilize every resource and limit risks to investors.
- Formulate policies to diversify forms of investment; continue improving environment for attracting foreign investment (both direct and indirect); ensuring trading rights of foreign invested enterprises to expand their businesses in accordance with market opening commitments at bilateral and multilateral commercial agreements.

2. Masterplan:

- To review masterplan, focus on formulate detailed masterplans as basis for investors to study, propose investment alternatives; proactively prepare investments for projects in accordance with masterplans as basis for negotiation and calling for investment.
- Formulate and implement local road transport development masterplans to ensure local road development in accordance with masterplans, harmoniously, reasonably and connectively to national transport networks.
- Disclose masterplans, conduct study/ research and manage procurements for construction projects as basis to find the most advantage counterpart funds.

3. Mobilizing fund resources

- Arranging funds from state budget as investment contributions to priority projects;

- Evaluate comprehensively and deal reasonably the relationship between domestic and foreign sources. Defining clearly sectors, areas and works that the government is obliged to contribute investment to those including expressway networks.

- Speed up renovation process, rearrangement of enterprises to attract investment through stock markets; this is a driving force and an important channel for investors. It is very difficult for investors to invest by themselves in major transport infrastructure projects, especially expressway network if lacking access to stock market.

- Cooperate with and call governments, international donors for investments to road systems from difference sources (ODA, commercial loans...).

4. Science – Technology and Training:

- Formulate and improve standards, specification, norms, regulations... in areas of survey, design, construction, take-over, maintenance, materials, technology applied in transport sector. Technological advances and new materials are encouraged.

- Various forms of training, retraining, socializing training for improvement of knowledge and competency by management staff and labourers.

- All projects are highly viable in socio-economic term but not viable in financial term. They require participation from government under different forms i.e. issuance of government bonds, ODA loans, commercial guarantees...and establishing mechanism support investors by each specific project.

- Other international donors and governments proactively provide ODA to invest in full or in part poverty reduction projects to development and commercial projects; international investors together with governments participate in investment to urgent projects but not yet get committed sources, improving quality of road infrastructure in Viet Nam.

- Proactively prepare investment projects in accordance with masterplan as basis for negotiation and calling for investment.

- Bring into full play efforts, facilitate favourable conditions for attracting investments under different forms such as issuance of bonds, diversifying forms of investment: Build – Operate – Transfer (BOT), Build – Transfer – Operate (BTO); Build – Lease – Transfer (BLT); Public Private Partnership (PPP).

- Screen, revise and amend system of laws, legal standards, specification, norms and regulation in conformity with international and regional good practice and practical conditions of Viet Nam.